



Automated Intelligence

The risk is growing: White paper on the impact of unstructured data in Financial Services Organisations

Written by Roger Poole (IGRisk) and Owen Devine (AI)

ABSTRACT

This White Paper explores the challenges associated with unstructured data within the financial services industry. The document outlines what unstructured data is, how it is created and details why unstructured data poses an economic and reputational risk for financial services organisations. We explain how Automated Intelligence's data management platform, **AI.DATALIFT**, brings an organisation's unstructured data under control. The White Paper concludes that organisations must implement data management solutions to control their unstructured data in order to fully realise the value within the data they hold and remain compliant with the aggressive regulatory environment.

List of contents

- > **About Automated Intelligence** - pg 1
- > **Introduction** - pg 2
- > **What is unstructured data?** - pg 3
- > **Unstructured data within FSOs – what are the risks?** - pg 4
- > **The effects on data quality** - pg 5
- > **Regulatory impact on unstructured data** - pg 5
- > **Unstructured data and risk management** - pg 6
- > **What's the solution to the issue of unstructured data?** - pg 6 & 7
- > **Conclusion** - pg 7 & 8

About Automated Intelligence

Automated Intelligence empowers organisations to take control of their data, so they can take control of their future.

Our cloud-based solution, **AI.DATALIFT**, is specifically designed to provide highly regulated Financial Services firms with data insight, risk identification and compliance reporting.

Our RegTech platform automates the data governance that is required by a firm's first line of defence, flags and quantifies actionable key risks indicators for its second line of defence and provides a full audit trail of compliance.

Introduction

Data management has increasingly become an area of consideration for all financial services organisations. To put the size of the challenge into context, the International Data Corporation (IDC) has predicted worldwide data will grow by 61% to 175 zettabytes by 2025, and, a single zettabyte equates to a trillion gigabytes. Further to this the IDC, which is the premier global provider of research tailored to the financial services sector, expects up to 88% of this data will be unstructured. This poses a significant compliance risk and cost challenge for financial services organisations (FSOs) as their silos of unstructured data remain unmanaged.

Following the onset of the Covid-19 global health crisis, the unprecedented move to remote working has further complicated the issue of unstructured data. FSOs must take control of their data estates by managing the data they hold and determining which data should be removed or retained in line with regulatory body standards and/or requirements.

What is unstructured data?

In order to recognise the risk posed by unstructured data, FSOs must first understand what unstructured data is and where it is held/stored.

Unstructured data represents information which does not conform to a pre-defined data model. As a result, the data is not easily searchable in comparison to the likes of a database, which stores data efficiently in rows and columns. As an example, here are just some of the ways unstructured data is created and/or stored within an organisation:

- > Emails incoming and outgoing
- > MS documents (or equivalent e.g. Google) such as Word/PowerPoint/Excel/Notes/PDF etc, which are created or received
- > PDF and Scanned Images (created/received)
- > Pictures taken and Video files created both within internal systems and external systems (e.g. WebEx etc.)
- > Texts (created/received)
- > Instant Messaging (internal and external systems) received and created
- > Bloomberg/Reuters messages
- > 3rd party vendor processing and/or storage services
- > Web sites
- > Voice recording
- > Scanning/copying/faxing from a Multi-Function Device (MFD)
- > Data merging/migration
- > Automated processes e.g. back up
- > Back up to external storage (e.g. iCloud)
- > Notes/drawings on phones/tablets

As illustrated, there are a multitude of opportunities for an organisation to create and store unstructured data. Even the most data-conscious organisations can be unwittingly holding media and devices which may be unmonitored in such a way that it potentially breaches regulation.

Unstructured data within FSOs – what are the risks?

FSOs with unmanaged unstructured data have a significantly higher risk profile than those that manage their data appropriately.

The following scenarios detail some of the risks faced by FSOs with regards to unstructured data, a view which is commonly shared by Information Governance officers, Risk Management officers and Data Protection officers:

> **Payment Protection Insurance (PPI)** –

FSOs discovered they were unable to easily identify if, how and why PPI was sold to their clients because the information was held in unstructured data, across multiple systems/repositories. Ultimately, this led to multi-billion pound compensation pay-outs as it was impossible for some FSOs to defend their actions. This came as a surprise to the Financial Conduct Authority (FCA) and Senior Management within financial services.

> **eDiscovery/Litigation** –

FSOs realised, once they started to receive requests from regulators such as the Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC), that much of the information they required was in an unstructured format, therefore it was difficult to access and could be stored on multiple storage locations.

> **General Data Protection Regulation (GDPR)** –

historically the risks associated with personal data over-retention were relatively low with the possibility of small fines. However, the introduction of the GDPR in May 2018 has led to the significant increase of fines associated with the over-retention of personal data. This risk is significantly elevated with an FSO.

> **Data Breach** –

Failure to manage unstructured data significantly increases the risk of an FSO's sensitive data being available to whistleblowers and/or others who may wish to cause reputational damage to the organisation.

It is commonly recognised that Data Management should be included on Risk Registers and pro-actively monitored on a regular basis. Failure to manage an organisation's unstructured data can potentially lead to:

- > Providing inaccurate data to regulators/courts
- > Search times and “false positives” impacting the ability to deliver data within the required time frames
- > Data breaches
- > Business inefficiency with users unable to access the right information in a timely fashion
- > Over-retention of customer data, in breach of contractual and legal obligations

The effects on data quality

Unmanaged unstructured data will have a negative impact on the quality of an FSO's data as demonstrated in the following examples:

> When undertaking a search to satisfy a Data Subject Access Request (DSAR) or Freedom of Information request (FoI), an FSO with unmanaged unstructured data will inevitably score a higher rate of results. This increased volume of information must be managed in order to confirm what the correct data is. This scenario has the potential to result in incorrect responses supplied to the initiator of the request and subsequent action by a regulator whilst creating additional cost/time challenges.

> Searches to meet regulatory or legal requests may generate incorrect or incriminating data. Due to the sheer volume of data retrieved, the information may not be reviewed appropriately before it is then submitted to the regulator or legal counsel. Please note, this does not suggest that any incriminating data should be removed. Specifically, this references data which is not relevant to the particular investigation.

The systems, processes and practices embedded within the IT infrastructure of many FSOs inadvertently promotes the exponential growth of unstructured data. Many over-stretched IT departments are simply unaware of the sheer volumes of replicated unstructured data held within their data estates.

Regulatory impact on unstructured data

The regulatory environment governing FSOs render it imperative that unstructured data is managed correctly. This will invariably include records that FSOs are obligated to retain for varying periods of time to comply with national and supra-national regulation and law.

There are clear requirements regarding the management of records, which are stipulated by regulatory bodies such as the FCA, SEC and CFTC. For example, the SEC requires all the FSOs it oversees to advise what steps they are taking each year to develop and improve their Records Management capabilities.

As a consequence of rigorous regulations, many FSOs also over-retain data as a precautionary measure. Of course, this is not ideal and will lead to a higher-risk profile for the organisation. Should an FSO fail to manage its data set to regulatory compliant standards, it risks facing substantial financial fines. Such a breach would incur significant reputational damage as a consequence.

This is particularly true for FSOs as they, are trusted with their customers' personally sensitive information. A breach in regulation could lead to a breach in trust and customers could choose alternative banking providers as a result.

Unstructured data and risk management

Local and global regulation pertaining to data retention is extensive and definitive. Failure to meet this regulation can lead to significant fines and/or reputational damage.

FSOs which retain excessive volumes of unstructured data experience significant challenges to:

- > Understand what data they have
- > Effectively search when they have specific and time-bound data production requirements (e.g. from regulators)

An organisation may be required to retain records held within vast silos of unstructured data for compliance purposes. However, many FSOs do not recognise the link between unstructured data and record keeping. This is predominantly due to the delegation of responsibilities within an organisation as Data Management is often viewed as an IT challenge whilst record keeping is considered an Operational, Legal or Compliance matter.

These structures raise personnel and budgetary challenges, which influence how an organisation manages its unstructured data.

What's the solution to the issue of unstructured data?

The regulatory environment governing FSOs render it imperative that unstructured data is managed correctly. This will invariably include records that FSOs are obligated to retain for varying periods of time.

At Automated Intelligence, we help organisations take control of their data, so they can take control of their future. We do this by supporting our customers with secure cloud-based data management solutions.

Our innovative platform, **AI.DATALIFT**, brings an organisation's entire data estate together from various sources into a single dashboard.

Once the data has been organised, we then provide a comprehensive analysis of the data to highlight any unstructured data the organisation holds and identify risks associated with regulation breaches.

FSOs can use this insight to cleanse their data of any Redundant, Obsolete and Trivial (ROT) data, which instantly cuts costs associated with storage requirements.

AI.DATALIFT also classifies data against an FSO's Information Governance strategy to ensure information is retained accordingly in a regulatory compliant manner.

This effectively reduces compliance risks and allows an organisation to govern and report on its data to regulatory compliant standards.

AI.DATALIFT offers FSOs insights which uncover the hidden value within their data and creates new opportunities across their business units. Data insights allow organisations to make smarter decisions and operate more effectively.

With insights gleaned through **AI.DATALIFT**, FSOs can improve how they service customers through analysis of customer sentiment and more targeted, personalised campaigns. Furthermore, it also presents an opportunity for innovation in a highly competitive financial marketplace. Looking deep into unstructured data means organisations can seek opportunities such as gaps in the market for new products and services. Other benefits for FSOs include:

> Identification of personal data –

State-of-the-art content analysis identifies files containing sensitive information such as personal customer data.

> Streamlined search capabilities –

With the removal of ROT data, FSOs can scan their data set more efficiently with AI.DATALIFT's powerful search index, prompting swift returns on SARs or regulatory requests.

> Improved DSAR accuracy –

With data management under control, FSOs can ensure accurate responses to DSARs or regulatory requests. ing periods of time to comply with national and supra-national regulation and law.

There are clear requirements regarding the management of records, which are stipulated

by regulatory bodies such as the FCA, SEC and CFTC. For example, the SEC requires all the FSOs it oversees to advise what steps they are taking each year to develop and improve their Records Management capabilities.

As a consequence of rigorous regulations, many FSOs also over-retain data as a precautionary measure. Of course, this is not ideal and will lead to a higher-risk profile for the organisation. Should an FSO fail to manage its data set to regulatory compliant standards, it risks facing substantial financial fines. Such a breach would incur significant reputational damage as a consequence.

This is particularly true for FSOs as they, are trusted with their customers' personally sensitive information. A breach in regulation could lead to a breach in trust and customers could choose alternative banking providers as a result.

Conclusion

Unstructured data poses a significant threat to all FSOs when left unmanaged, leaving the organisation vulnerable to the financial and reputational damage associated with regulatory risks. The significant volumes of irrelevant data also incur substantial and unnecessary storage costs.

When controlled using a data management tool such as **AI.DATALIFT**, FSOs can reduce the risks linked to unstructured data by using the cloud-based solution to govern and report on its entire data estate to regulatory compliant standards.

Through **AI.DATALIFT**'s powerful search function, FSOs can also classify and cleanse redundant data to alleviate storage costs. When an organisation brings its unstructured data under control, it gains a crucial understanding of the value its data holds.

This understanding informs its business strategy and allows the organisation to better serve its customers more effectively.

Therefore, it is crucial that FSOs implement data management solutions to control their unstructured data in order to fully realise the value within the data they hold.

Contact us today

If you are interested in discussing your organisation's unstructured data, or if you would like to find out more information regarding **AI.DATALIFT**, please contact us for a free consultation with one of our data management experts today.

+44 2073 075 945

sales@automated-intelligence.com

www.automated-intelligence.com